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THE COMING INDUSTRIAL DEMOCRACY

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In a paper entitled "Representation and Leadership in Democracy," in the November (1917) issue of this *Journal*, the present writer incidentally touched upon the momentous question of industrial democracy versus industrial autocracy or industrial oligarchy. The only point made in that connection was this, that certain questions that are often treated as purely political—such, for example, as the question of making representative government truly and fully representative, or of giving the masses of toilers the weight and influence in government to which their numbers and importance entitle them—are really at bottom social and economic questions, since a degraded, morally corrupt, and ignorant class cannot be expected to value integrity, intelligence, and fidelity in elected representatives of the people, or to know how to utilize democratic election machinery to their actual and ultimate benefit. In other words, the point was that economic and social injustice sooner or later reduces political democracy to a hollow mockery and empty form, and that in order to eradicate such notorious evils as corrupt control of legislation, class legislation, insidious bribery, spoils politics, and waste of public assets, we must gradually remove certain kinds of economic injustice.

That paper brought the writer a spirited letter of admonition and comment from an alert, keen, and thoughtful employer of labor who is not an apologist for the present social economic order, but who yet fears that vague talk about industrial democracy may cause more harm than good. The letter is doubtless typical and symptomatic; many employers who would energetically protest against any reflection on their liberalism and progressivism undoubtedly share the sentiments so candidly expressed therein. So do many influential editors. We have permission to reproduce

the letter in its entirety, while the opportunity of considering and meeting the points it raises is most welcome.

The letter is as follows:

With interest I have read your article on "Representation and Leadership in Democracies" and think that you have stated a number of pertinent truths well.

I am a manufacturer and take exception to your statements regarding the democratization of industry, not that this is not desirable, but I believe you and your friends, who for years have been talking about these matters, are on a very dangerous subject that will complicate matters very seriously in the future.

As I wrote Mr. Lyman Abbott years ago, if you want to democratize labor, why do you not start right in your own family, making the cook, treasurer, and the butler, secretary, and submit all questions of matters pertaining to the household to this council. If you first make a success of this, no doubt the industries will follow.

Success in business is at all times dependent on "eternal vigilance." You have to buy and sell at the right time and produce your material of the right grade and at the right price. It takes practically a genius in these lines to be a successful leader and without that a business goes to smash.

While from the theoretical point, it undoubtedly would be lovely to have a set of artisans that are clever, industrious, honest, and capable of giving counsel, and submit the whole matter to them—of course under able leadership from above—yet under present conditions, the results would not be any better than those achieved from the low-grade wards, unless you could pick out an especially efficient, sober, and industrious class of workmen, much above the average. This, of course, is impossible to do as a general rule, as you must employ the average run of laborers offered.

Talking about business over-charging and so on, is, of course, not altogether nonsense, but the business cannot exist on a margin of 5 per cent profit. Now, just before the war, we built a new plant that was intended to work up rock imported from Germany. This plant was hardly in good working order before the importations were stopped—fifteen or twenty thousand dollars thrown into the gutter. Next we had to buy mines down in Georgia and start producing material there. We were very fortunate in getting a good deposit, but now the ore is pinching and from all indications, we will have to move all of our machinery, etc., to Tennessee and there build railroads, etc., to handle this proposition. As far as I can see, we will have to make an investment of about seventy-five thousand dollars, and we will never know the quantity or quality of this ore, until we are through working it. These are just minor things that just come up, and come up every day.

Supposing we had a system of democratized industry with minimum wages, minimum hours, and maximum leisure, and we at the same time had to

compete, not alone in the home market with other manufacturers, but with the foreign market—for of course, we have to have free trade, fraternity, and equality the world around—and the Germans with their abundance of natural raw material in our line and expert chemists and low wages, are very formidable competitors, and what about the Japs coming in and the Chinese with a daily wage of ten cents? I think the difficulties before us will be enough as it is without getting us into a fix that democratized industry would unquestionably lead us to.

This is a beautiful thought, but if this dream shall be realized, we must stop the emigration of all but the highest grade of people and few of them. We must improve our home stock, doing away with the large increase that under present conditions is produced by our low-grade people.

Now, all of these advices, I admit are pretty hard to follow, but believe me, they must be considered before you can introduce "democratized industry." While it may be a very good catch word on the platforms for Progressive leaders, Socialists, and anarchists—I do not use these words to designate low-grade people, but the theorists and individuals who really hope to improve the conditions of humanity—all of these things are goals that we may try to reach in some distant future, but they are not within the practical reach of society today.

Kindly excuse my writing on this subject to you, but the fact is that these matters are of very great importance and it is of very great importance, too, that our leaders treat them seriously; and it is in the hopes of gaining a new convert for the sane treatment of social improvement with special reference to democratized industries, that I am writing you.

Respectfully yours,

S. H. KREBS

P.S.—It may interest you to know that I, myself, thirty-five years ago was a Scandinavian emigrant, landing on these shores without means and without any pull whatever, managing to rise, I suppose, to what you might call the top of the heap. I am president and principal stockholder of the Krebs Pigment & Chemical Co.

Before attempting to answer this stimulating communication, it is perhaps not impertinent to point out that some employers of labor, captains of industry, capitalists, or men of big affairs—whatever we may call them—have latterly spoken or written in a very different tone. Mr. Charles M. Schwab, the head of the greatest steel plant in the world, created an international sensation by telling a school alumni audience that a new social order is coming; that "this social order may mean great hardship to those who control property, but perhaps in the end it will work for the good of us all." "The man who labors with his hands, who does not possess property," continued Mr. Schwab, "is the one who is going

to dominate the affairs of this world.” And he concluded with the more reassuring reflection that the transformation of the social and economic order “will be so gradual that we will hardly realize that it has occurred.”

Now, Mr. Schwab is neither a sentimentalist nor an academic, doctrinaire radical. He does not wish to give away his wealth, he frankly says, nor to surrender his economic power. He merely perceives that certain changes are inevitable, and, indeed, already taking place, and he feels that it is his duty, or the part of sagacity and common sense, at any rate, not angrily and passionately to oppose, but to meet, instruct, and discuss matters with those who are more radical, or less fortunate, or less rational than himself.

But is Mr. Schwab a good prophet? Is he able to see things as they are? Well, the familiar tendencies and developments of our day would seem to answer these questions beyond peradventure. Mr. Schwab speaks of Socialism, of Russian Bolshevism—which is merely intransigent and international socialism temporarily in the saddle—of Syndicalism, of the growing influence of labor unions and other radical forces. He has heard of the Non-Partisan League. He knows what the Labor party has achieved in England, in Australia, in New Zealand, in the United States even, where it is not as yet acting independently in national or state politics, but only applying pressure to the great historic parties and forcing them to make concessions in various directions and just beginning to make itself felt in municipal politics.

Can any sober-minded, studious observer assert that all these signs and portents signify little, and that the practical, hard-headed man of affairs, the “realist” in business or government, may calmly ignore them or treat them as of no consequence? Can any thoughtful person who is at all conversant with political and industrial history, or with the doctrine and facts of evolution, assert that the existing social order is immutable and attack-proof?

Hardly. Of course, the shallow, the ignorant, the intellectually indolent and the narrowly selfish, who think only of the present, may be left out of consideration. Profitable argument is possible only with the earnest, the open-minded, the intelligent, conservatives, and beneficiaries of the present régime.

Among these, no doubt, there are many who think that the present order is sound and just in the main, and that only certain so-called progressive-conservative reforms are either desirable or possible. Does Mr. Krebs belong to this category? Is he of the opinion that *no* radical reforms, such as are implied in or suggested by the vague phrase "industrial democracy," are necessary or practicable? Is he one of those who think that better elementary and vocational training, industrial insurance, a shorter work-day, and like measures will solve the social problem and do away with the dangers that beset us? Does he think that benevolence and condescension on the part of employers will satisfy labor? Does he think that strikes, friction, bitterness, class feeling, and the terrific economic waste that attends these phenomena, can be abolished by a few palliatives? How does he propose, if he condemns truly but constructively radical reforms, to combat the destructive, extreme notions that are making headway everywhere? Would he rely on force, on bayonets, martial law, and the machinery of coercion and repression generally? Does he hold that might can permanently suppress right?

We must assume that he believes nothing of the sort, and that the real question with him is, *What is right?*

Our answer is, righteousness and justice in industry and economic relation generally now mean and enjoin, and will gradually bring about, "industrial democracy." Our answer is, there is no use in preaching, crying, or thundering industrial peace where there is no peace.

And why is there no peace? Because labor feels that it is still largely at the mercy of capital; that it must agitate, threaten, strike, and even riot to obtain the most moderate concessions; that it does not obtain its just share of the total product and never will obtain it under industrial autocracy; that the interests of the employers and the employed, instead of being regarded as identical, are in fact diametrically opposed; that it is no more reasonable to expect economic justice to be handed down from above than it was to expect political justice to be so handed down by an upper class. The masses are now politically enfranchised and have a voice in deciding national and international affairs. They are

demanding economic enfranchisement, a voice in the management and control of industry and trade. If, they are asking, production is impossible without labor, why should capital, the other indispensable human factor, alone control industry?

The present system must make way—gradually, as Mr. Schwab says, but make way—for a co-operative system, a system under which labor is a partner in industry, shares the profits of industry, has a voice in determining industrial policies, helps decide all questions that bear on wages, hours, working-conditions. Labor is often unconscious of its own goal, but co-operative, democratic control of industry *is undoubtedly that goal*. To have peace, the whole industrial atmosphere must be changed. On every business directorate labor should have representation. The rule of reason and equity should replace the rule of brute force in the settlement of industrial questions. Industry must be “peopleized” both with respect to returns, dividends and interest, and with respect to management.

Is this too Utopian an ideal? Is Mr. Krebs right in warning us of the mischief that lurks in encouraging or spreading such ideas? The ideal is not Utopian. On the contrary, it is intensely practical. *No other permanent solution of the social problem is discernible*. The mischief makers are those who frown upon wholesome discussion, and who virtually tell labor that it must always remain economically subject, dependent, enslaved.

But surely industrial democracy is a most difficult system to establish and operate. Yes, in truth, terribly difficult. It will require decades, perhaps centuries, to effect the complete transformation. Only the ignorant and the fanatical Bolsheviki imagine that a decree or two by a group of socialist dictators will suffice to solve the social problem. The extremists are responsible for much friction and bad temper, but let us not forget that there are extremists among the conservatives as well as among the radicals.

The sane, the reasonable elements in society should never fail to recognize the obstacles and difficulties that stand in the way of industrial democracy. Mr. Krebs is entirely right in all that he says about the part played by constructive ability, organizing capacity, courage, foresight, insight, patience, in modern industry.

The function of the true captain of industry is of great and growing importance. Such a captain needs freedom of action and is entitled to ample reward. Any co-operative system that should fail to provide for freedom and adequate reward to the real managers, the directing heads, the discoverers of new opportunities, the originators of policies adapted to changing conditions would speedily collapse. Instead of creating abundance, such a system would create scarcity and uncertainty. Workers who have not learned to trust leaders, to submit to discipline, to make democracy safe by conferring necessary power and responsibility on the competent and fit, would make a mess of any democratized industry. But how are the workers to learn self-restraint and discipline under autocratic industry? They will learn chiefly by doing, by practicing, by trial and error. Humanity can be sent to no other school than that of experience. The wise men are here to give warning, to set examples, but, after all, we get our education by living, suffering, enjoying, profiting by experience.

It is our duty and our privilege to promote industrial democracy in all proper, expedient ways. Trade unions should turn their thought to the question of co-operative production and co-operative distribution. They are demanding justice, but they are not doing all that they can to advance and establish industrial justice. They think too much of immediate questions and not enough about the future of industry and labor. Why should not American trade unions, or industrial unions, assume entrepreneur functions? Why should they not compete with private contractors? Why should they not start, on a modest scale, co-operative factories? One such factory, if successful, would be worth a thousand strikes from the point of view of ultimate economic justice and order. In primitive Russia there are thousands of *Artiels*, co-operative organizations of peasants and laborers. If American labor wants democratic industry, it should proceed to give society object lessons in democratic or co-operative industry. We may be sure that before long it will do this instead of contenting itself with negative methods. In the Old World co-operation has grown steadily and has been successful in many ways.

Employers of intelligence and right feeling can and should play an active part in democratizing industry. Profit-sharing is a step in the right direction. The sale of stock on the installment plan to employees, with the logical corollary, the election of representatives of the employees as directors, is another and even more important step. The creation of permanent arbitration boards to settle and prevent disputes is another step.

In short, if we realize that industrial democracy is inevitable and right, we shall find a hundred different ways of facilitating its advent and making the process peaceful and evolutionary.

Occasionally some financial or corporate organ publishes with every evidence of satisfaction figures that tend to prove the steady and even rapid growth of small "owners" of our industrial properties. We are told that not small groups of magnates, but tens of thousands of small investors own the Pennsylvania Railroad, or the New York Central, or even a great industrial property. The moral usually drawn is that legislators and executive officials should beware, in their assaults on "plutocracy," of injuring industrial democracy. There is some sense and force in such admonitions. But if industry is actually becoming "peopleized" and democratized by means of investment in corporate stocks and bonds, and if this tendency is beneficial and deserving of every encouragement, does it not clearly follow that the *control and management* of industry should be democratized also, as far as possible? Are the millions of small investors to be used and led, or driven, by a few speculators or autocrats? Are the small investors to vote blindly for "proxies" and ask no questions so long as they get their dividend checks? And what if the dividends are "passed"? What can the small, scattered, unorganized investors and bondholders do to protect their interests, to prevent frenzied finance, gambling, waste, and spoliation? Restrictive legislation alone will not give them adequate protection. Publicity, democratic control, directorates of a new type, will be found increasingly necessary to this end. The very persons who decry foolish and demagogical legislation that hampers enterprise often make such legislation inevitable by opposing publicity and democratic control of industry! If small

investors cannot protect themselves, the state will have to protect them, and state protection may or may not be intelligent. The "let alone" policy has become impossible. If we are to have neither autocracy nor anarchy in industry; if we are to escape reactionary bourbonism and hate-inspired, wild Bolshevism alike, we must find a golden mean, and we can find it in industrial democracy.

To repeat, the difficulties and obstacles in the way are innumerable and enormous.¹ But what great change in history was easy? The obstacles will have to be surmounted, the knots unraveled, the difficulties removed, one by one. There is no choice but to peg away, to labor and try, to summon all our tolerance and sympathy to the task.

¹ Mr. Krebs' reference to democratization of the kitchen and servants' quarters is not very happy. Domestic service presents serious problems, but they are different from those under discussion. The taint of servitude, of personal or social inferiority, is what renders domestic service so deservedly unpopular. The first step toward the solution of the "servant problem" is to elevate the servant to the rank of an independent wage-worker. The wage-worker is not a "servant," even if the law still calls him that; he is the equal of his employer. He is backed by powerful unions; he has learned to insist on collective bargaining; he enters into agreements with employers and even compels the latter to submit to arbitration. None of these things can be predicated of the domestic servant. It is mere common sense, then, to try industrial democracy where the conditions are most, not least, favorable, where the parties meet on a plane of equality and already have "done business" with each other in a dignified, manly fashion. The kitchen will be the last, not the first, to be democratized, and that fact is in no sense an argument against the practicability of co-operation as a substitute for industrial autocracy.